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SUBJECT: ESTONIA PAVES THE WAY FOR SECOND MAJOR ELECTRICITY LINK TO
FINLAND BY OPENING ITS ELECTRICITY MARKET

11. (SBU) SUMMARY: On January 28 the Riigikogu (Estonian parliament) passed amendments to the Electricity Market Act which will open 35 percent of the electricity market on April 1 and fully open the market on January 1, 2013. Finnish transmission grid company Fingrid has been waiting for this development before making its investment decision about the proposed 650 megawatt (MW) Estlink 2 cable between Estonia and Finland. The Finnish Embassy lobbied hard for the passage of the bill and does not foresee any more obstacles for the Estlink 2 project. The Russian government was also apparently waiting for this bill, and opened a branch of its state energy trader (Inter RAO UES) in Tallinn in late January. The course of this bill, from inception to approval, had been bogged down by parliamentary demands to reduce generous renewable energy subsidies and concerns that major electricity consumers would see sharp price increases. With the passage of this bill, however, Estonia and Finland will be helping to improve the EU's diversity of energy supplies. Both Estonian and Finnish officials are confident the EU will confirm this year its EUR 100 million contribution to the construction of Estlink 2. END SUMMARY.

OPENING THE MARKET

12. (SBU) According to Estonia's new Electricity Market Act, as of April 1, about 300 large consumers (35 percent of Estonia's electricity market) will have to buy electricity on the Nord Pool Spot electricity exchange (which currently trades electricity between Norway, Sweden, Finland and Denmark). The market would open for the rest of the consumers on January 1, 2013. At present, all of Eesti Energia's (Estonian Energy) major clients buy electricity at a price set by the Competition Authority rather than the free market. Major electricity consumers lobbied heavily to postpone the opening of the electricity market since they believed this would increase the price they pay for electricity (Note: Nord Pool Spot prices are usually higher than current Estonian prices. End Note.)

13. (U) On January 28 Russian state electricity provider Inter RAO UES announced it had opened a branch in Estonia, Inter RAO Eesti. The Estonian office is a subsidiary of Inter RAO Lietuva, the Lithuanian branch of the company, and was set-up expressly to facilitate the sale of Russian electricity in Estonia when the market opens.

14. (U) Responding to an EU directive, the bill also codified the separation of the main grid company, Elering, from the production and sales activity of Eesti Energia. Despite becoming a separate company, Elering will also remain state-owned. The bill further confirmed state support for the proposed construction of two new oil shale-burning power generating units expected to be completed between January 2013 and January 2016. (Note: The U.S. company Foster-Wheeler sold the last two oil shale boilers purchased by Eesti Energia and is considered to be the front-runner for the next two units. END NOTE.)

IMPACT ON ESTLINK 2

15. (SBU) The opening of the electricity market from April 1 has been one of the preconditions for the Finnish transmission grid company Fingrid to make its investment decision about the construction of Estlink 2, the proposed 650 MW undersea cable between Estonia and Finland. (NOTE: The 350 MW Estlink became operational in January 2007. END NOTE.) Fingrid must make its decision by October for the project to be eligible to receive EUR 100 million in EU Recovery Funds.

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16. (SBU) Nina Nordstrom, Counselor at the Finnish Embassy in Tallinn, told EconOff the Finnish Embassy lobbied hard for the passage of the bill and that she was certain the Estlink 2 project would receive backing by Fingrid and the EU. The Finnish DCM added that the GOF's energy czar was visiting Tallinn February 2. The trip had been planned to lobby for opening the electricity market, but after passage of the bill has turned into "a friendly visit."

17. (SBU) COMMENT: The opening of the electricity market and construction of Estlink 2, like accession to the euro zone, demonstrate the GOE's commitment to make sacrifices to achieve long-term economic and energy security objectives. Although it is far from certain, most experts predict the opening of the market and joining Nord Pool Spot will cause Estonian electricity prices to rise. However, the GOE is willing to pay this price in order to further integrate with its northern and western neighbors and increase its diversity of supply for energy.

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